

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

ILLINOIS COMMERCE COMMISSION	)	
On Its Own Motion	)	
vs.	)	
ILLINOIS BELL TELEPHONE COMPANY	)	Docket No. 02-0427
	)	
Investigation of intrastate access charges	)	

**REVISED DIRECT TESTIMONY OF  
CATE HEGSTROM  
ON BEHALF OF  
AT&T COMMUNICATIONS OF ILLINOIS, INC.**

**AT&T Exhibit 1.00**

**November 12, 2002**

1    **Q.     Please state your name and business address.**

2    A.     My name is Cate Hegstrom. My business address is 222 West Adams St., Suite  
3           1500, Chicago, IL 60606.

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5    **Q.     By whom are you employed and in what capacity?**

6    A.     I am employed by AT&T as a District Manager - Government Affairs.  
7

8    **Q.     Describe your education and professional background.**

9    A.     I received a B.A. degree in Mathematics from Benedictine College in Atchison,  
10          Kansas. In December 1974, I began my telecommunications career in the  
11          Network Operations Department of AT&T Long Lines in Omaha, Nebraska. My  
12          responsibilities included the provisioning and maintenance of the switched and  
13          special services network. In 1977, I joined the Regulatory Department of  
14          Northwestern Bell Telephone Company (NWB), where I performed cost and rate  
15          studies used in connection with private line, ENFIA and related services. In 1983,  
16          I returned to AT&T, joining what became the Marketing Plans Implementation  
17          organization of AT&T Communications in Omaha. In that position, I was  
18          primarily responsible for analyzing Local Exchange Carrier ("LEC") access  
19          filings within the five NWB states.

20  
21          In 1986, I accepted a position with the AT&T Communications staff organization  
22          in New Jersey. My duties included the analysis of regulatory issues and the  
23          development of positions related to AT&T's intrastate services.

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In 1988, I joined AT&T Corp.’s External Affairs organization in Chicago, where my job duties included contracting and liaison activities between AT&T and several large independent telephone companies in AT&T’s then ten Central Region states. In 1990, I assumed responsibility for the analysis and administration of access-related issues and LEC regulatory issues affecting AT&T’s intrastate operations in several Central Region states, including Illinois. In January 1997, I accepted the position of District Manager-Regulatory Matters.

**Q. Have you previously filed testimony before the Illinois Commerce Commission (“ICC”) or (the “Commission”)?**

A. Yes. I have testified before the Commission in ICC Docket No. 93-0044 (MCI and LDDS Complaint against Illinois Bell), ICC Docket No. 93-0409 (MFS Application for an Amended Certificate), ICC Docket Nos. 93-0301/94-0041 (GTE North Rate Case), ICC Docket Nos. 94-0042 through 94-0046 (Investigation of Switched Access Local Transport Restructure Rates), ICC Docket Nos. 94-0048, 94-0049, 94-0117 and 94-0146 (Rulemakings for Presubscription and Line Side Interconnection, Ameritech Customers First Plan, AT&T Petition), ICC Docket No. 94-0480 (Investigation into Physical Collocation), ICC Docket Nos. 95-0458/95-0531 (Petition for Wholesale Service Tariffs of Ameritech and Centel Companies), ICC Docket Nos. 95-0135/ 95-0179 (Illinois Bell Reclassification of Bands B and C Usage/Increase to Business Band C Rates), ICC Docket No. 96-AB-005 (AT&T/GTE North Arbitration), ICC

1 Docket No. 97-0621 (DEM Stipulation), Phases I and II of ICC Docket Nos. 97-  
2 0516/97-0601/97-0602, ICC Docket No. 98-0321 (Gallatin River Acquisition  
3 Application), ICC Docket No. 98-0866 (Bell Atlantic/GTE Merger), ICC Docket  
4 No. 99-0038/99-0039 (Ameritech Access Refund Complaint), ICC Docket No.  
5 98-0860 (Competitive Classification of Ameritech Services), Phases I and II of  
6 ICC Docket Nos. 00-0233/00-0335 (Rural ILEC USF Investigation) and ICC  
7 Docket No. 00-0812 (Verizon LRSIC Investigation). I have also represented  
8 AT&T in a number of Illinois workshop proceedings including those convened in  
9 ICC Docket No. 90-0425 (Access Charges), ICC Docket No. 92-0210 (Imputation  
10 Rulemaking), ICC Docket No. 92-0211 (Cost of Service Methodology and  
11 Rulemaking) and ICC Docket No. 92-0398 (Interconnection Rulemaking).

12  
13 **Q. Have you testified before other state commissions?**

14 A. Yes. I testified before the Michigan Public Services Commission in Case No. U-  
15 10647 (City Signal Complaint), Case No. U-10860 (Generic Interconnection  
16 Investigation), Case No. U-11053 (ACI Application), Case Nos. U-11151/U-  
17 11152 (Ameritech Arbitration), Case No. U-11165 (GTE North Arbitration), Case  
18 No. U-11660 (AT&T Complaint Against Ameritech Access PICC Rates), Case  
19 No. U-11831 (Ameritech Michigan TSLRIC review), Case No. U-11832 (GTE  
20 North TSLRIC review), Case No. U-11899 (USF Investigation), Case No. U-  
21 12287 (AT&T Complaint Against Ameritech Access Rates), Case No. U-12465  
22 (AT&T/Ameritech Michigan Arbitration Petition) and Case No. U-13125 (AT&T  
23 Complaint Against Verizon Access Rates). I have testified before the Indiana

1 Regulatory Utility Commission in Cause No. 39369 (Access Investigation), Cause  
2 No. 39385 (Special Access CSOs), Cause No. 40571-INT-02 (GTE North  
3 Arbitration), Cause No. 40785 (Universal Service and Access Charge Restructure  
4 Investigation), Cause No. 41255 (Ameritech/SBC Merger Application), Cause  
5 No. 40571-INT-03 (AT&T/Ameritech Indiana Arbitration Petition), Cause No.  
6 42178 (Emergency Petition by Rochester Telephone Company), Cause No. 41998  
7 (CLEC Petition for Structural Separation for Ameritech) and Cause No. 42144  
8 (Investigation into Access Reform and Need for state USF). I also testified  
9 before the Public Utilities Commission of Ohio in Case Nos.92-1525-TP-CSS/92-  
10 1149-TP-ALT (Western Reserve Alternative Regulation), Case No. 96-832-TP-  
11 ARB (GTE North Arbitration), Case No. 96-336-TP-CSS (Ameritech Access  
12 Service Rate Complaint), Case No. 98-1398-TP-AMT (Bell Atlantic/GTE  
13 Merger) and Case No. 1188-TP-ARB (AT&T/SBC-Ameritech Arbitration  
14 Petition) and before the Public Service Commission of Wisconsin in Docket Nos.  
15 265-MA-102/2180-MA-100 (GTE Arbitration), Docket No. 6050-TI-101  
16 (Frontier Alt. Reg.), Docket No. 05-TI-174 (Price Regulation Review), in Docket  
17 Nos. 1910-T1-101/2050-T1-100/3070-T1-100/6040-T1-100/5530-T1-100/4590-  
18 T1-100 (CenturyTel Company (6) Alternative Regulation Applications), in  
19 Docket Nos. 2055-NC-100/5846-NC-100/2055-TR-100/5846-TR-100 (CT/GTE  
20 asset purchase), Docket No. 05-MA-120 (AT&T/Ameritech Arbitration Petition)  
21 and in both phases of Docket No. 2815-TR-103 (CenturyTel-Kendall Emergency  
22 Petition for Rate Increase/Application for Permanent Rate Increase).

1     **Q.     What is the purpose of the your testimony?**

2     A.     The purpose of my direct testimony is to respond to the revised direct testimony  
3           of Mr. J. Thomas O'Brien, filed on behalf of Ameritech Illinois, regarding  
4           Ameritech's responsibility to comply with the Commission's March 29, 2000  
5           Order in Phase II of Docket Nos. 97-0601/97-0602 and to describe the joint  
6           proposal that Ameritech Illinois and AT&T have formulated to resolve the over-  
7           recovery of trunk port costs included in Ameritech's currently effective interim  
8           intrastate access rates. It is my understanding that Mr. O'Brien is concurrently  
9           filing rebuttal testimony that reflects this joint proposal. Furthermore, I will  
10          describe the method by which an appropriate level of amounts to be refunded by  
11          Ameritech should be calculated, as well as the appropriate level by which  
12          Ameritech must reduce its local switching access rate in order to eliminate the  
13          over-recovery of trunk port costs on a prospective basis.

14

15    **Q.     What do you understand Ameritech to claim its interim access pricing**  
16       **responsibilities are relative to the Commission's "access to cost" order?**

17    A.     According to Ameritech witness Mr. O'Brien's direct testimony:

18           As noted previously, Ameritech Illinois was ordered to file rates  
19           based on the LRSIC studies "already on file with the  
20           Commission." The Company was not given any latitude to make  
21           adjustments to those studies, other than to add a 28.86% mark-up  
22           for shared and common costs. Ameritech Illinois filed exactly  
23           what it was ordered to file.

24

25           According to Ameritech, then, by Commission order, Ameritech lacked the  
26           authority to make any adjustments necessary to reduce the local switching rate to

1 “cost-based” levels – including the removal of duplicative trunk port costs – as  
2 contemplated by the order. Although I disagree with Mr. O’Brien, the joint  
3 proposal which AT&T and Ameritech are offering here makes it unnecessary to  
4 debate this issue further.

5  
6 **Q. Was Ameritech Illinois aware of the inclusion of trunk port costs (and**  
7 **therefore double recovery of trunk port costs) in its local switching LRSICs?**

8 **A.** While Ameritech was generally aware of the concern that trunk port costs were  
9 being over-recovered in its local switching LRSICs, there is no question that the  
10 issue was brought to the forefront and to Ameritech’s direct attention in the letter  
11 of objection AT&T filed with the Commission on January 8, 2001.

12  
13 With its response to that letter, Ameritech would agree then, that by January 2001  
14 at the very latest, Ameritech was put on notice that its “cost-based” access charges  
15 may have been over-recovering trunk port costs, regardless of whether the level of  
16 double recovery was known or not. Assuming Ameritech reduces its local  
17 switching rates effective January 1, 2003 to remove the trunk port costs,  
18 Ameritech will have over-recovered trunk port costs of at least three million  
19 dollars during calendar year 2001 and calendar year 2002.

20  
21 **Q. How do you explain the significant difference between AT&T’s estimate of**  
22 **the double recovery (approximately \$20 million annually) and that provided**  
23 **by Ameritech witness Dr. Currie (approximately \$1.5 million annually)?**

1 A. According to Ameritech, Ameritech's LRSICs available during the access reform  
2 investigation in 1999 contained an additional error in the costs of the switched  
3 access service dedicated trunk port. Specifically, as described in Ameritech's  
4 response to Staff data request RFK-1.4 and illustrated in the 6<sup>th</sup> confidential  
5 document attached to that response (see Attachment CH-1 hereto), in its 1999  
6 Alternative Regulation LRSICs, Ameritech had calculated its shared trunk port  
7 costs based on a DS1 trunk port rather than a DS0 trunk port. Because AT&T's  
8 calculation was based on Ameritech's LRSICs as filed in 1999, the effect of  
9 Ameritech's error (i.e., calculating shared trunk port costs on a DS1 trunk port  
10 rather than a DS0 trunk port), in isolation of any other changes, had the  
11 consequential effect of exaggerating AT&T's estimate of the over-recovery of  
12 shared trunk port costs by a magnitude of twenty-four.

13  
14 **Q. Do you accept Ameritech's \$1.5 million annual impact estimate?**

15 A. Since this investigation was initiated, representatives for AT&T reviewed  
16 the processes by which Ameritech estimated its double recovery of trunk  
17 port costs. Based on this review and the fact that Ameritech has  
18 acknowledged that its original calculations were based on a DS1 trunk  
19 port rather than the DS0 trunk port, AT&T accepts Ameritech's method  
20 utilized to estimate the level of the per minute double cost recovery, i.e.,  
21 \$0.000169, as the appropriate basis upon which to calculate the amount  
22 Ameritech is to refund to interexchange carriers. This amount then must  
23 be applied to actual billed minutes of use for the relevant time periods.



1 Further, AT&T accepts this amount to be the level by which Ameritech's  
2 switched access local switching rate must be reduced on an ongoing basis  
3 to eliminate the double recovery of trunk port costs.  
4

5 **Q. What is your recommendation to the Commission in these proceedings?**

6 A. Ameritech has agreed to revise its interim switched access service local  
7 switching rate element to \$0.003818 to reflect the removal of all trunk port  
8 costs, and I recommend that the Commission adopt an order approving  
9 this agreement. Further, Ameritech has agreed to refund the double  
10 recovery dollars to the IXC's beginning January 1, 2001, continuing to the  
11 effective date of the revised tariff, and the Commission should order  
12 Ameritech to provide those refunds. Refunds should be based on an  
13 IXC/ILEC's actual minutes-of-use billed and should be issued to carrier  
14 customers of record as of the date that the refund is issued. Ameritech  
15 Illinois proposes that the refund be issued in the form of a bill credit and  
16 AT&T finds this proposal acceptable.  
17

18 **Q. Why do you recommend the refund period begin January 1, 2001?**

19 A. As I noted above, at the very latest, Ameritech became aware of the double  
20 recovery of trunk port costs by way of AT&T's initial letter of objection dated  
21 January 8, 2001. I understand from Ameritech that due to certain system  
22 capabilities and constraints, it is easier and more efficient for refunds to become  
23 effective on the first day of a calendar month. As such, AT&T and Ameritech

1 have agreed to a refund period beginning on January 1, 2001. The refunds shall  
2 be provided from January 1, 2001 through December 31, 2002 (or through the  
3 date the current local switching rate remains effective, if different from year end  
4 2002), with the new access rates to become effective upon Commission adoption  
5 of this joint proposal. The Commission should order Ameritech to refund these  
6 amounts for these timeframes within 60 days from the date of a Commission  
7 order in this proceeding.

8  
9 **Q. Will Illinois end user consumers benefit from Commission adoption of your**  
10 **recommendations?**

11 A. Yes. In its initial order in Phase II of the access investigation, the Commission  
12 issued the following directive for interexchange carriers ("IXCs"): "[U]pon the  
13 filing of [Ameritech and Verizon new access charge] tariffs, the IXCs will then be  
14 allowed thirty days in which to file new tariffs, supported by appropriate  
15 information detailing the manner in which they propose to flow through the ILEC  
16 access charge reductions and the estimated revenue impacts of flowing through  
17 the reductions to consumers, to assure the tariff filings are in compliance with this  
18 Order." (Order issued March 29, 2000 in ICC Docket Nos. 97-0601/0602, p. 53.)  
19 As clarified in Ordering Paragraph K, this requirement applies to IXCs and ILECs  
20 alike "to the extent their actual access charge expenses decrease."

21  
22 Although I am not an attorney, I assume that because these refunds are being  
23 provided as the result of an over-recovery of access charges by Ameritech, an  
24 adjustment to IXCs' and ILECs' pass through based on the revised rates might be

1        appropriate. Thus, AT&T commits to flow through its portion of these refunds to  
2        its Illinois toll customers. Indeed, in AT&T's initial letter of objection, AT&T  
3        volunteered that it "stands ready to pass its access expense savings through to its  
4        customers as directed in the Commission's Phase II Order."

5  
6        Similar to the process employed in 2001, AT&T will demonstrate to the  
7        Commission Staff the manner by which it has flowed the refunds through to its  
8        end user customers.

9

10    **Q.    Does this conclude your direct testimony?**

11    **A.    Yes, it does.**